

Message Text

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INFO OCT-01 ISO-00 EURE-00 CIAE-00 PM-04 H-01 INR-07 L-03
NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06
CAB-02 COME-00 DOTE-00 EB-08 CIEP-01 FAA-00 OMB-01
TRSE-00 AID-05 IGA-02 ACDA-07 SAJ-01 /085 W
-----111716Z 008921 /41

P 111126Z FEB 77
FM AMEMBASSY REYKJAVIK
TO SECSTATE WASHDC PRIORITY 7024
INFO SECDEF PRIORITY

S E C R E T SECTION 1 OF 2 REYKJAVIK 0220

E.O. 11652: GDS
TAGS: MARR, MASS, IC, US
SUBJECT: TERMINAL COMPLEX ISSUE

REF: (A) STATE 26328 (B) REYKJAVIK 0157

SUMMARY: EMBASSY CONCURS IN PRIME MINISTER HALLGRIMSSON'S
JUDGMENT (REF B) THAT IDF PRESENCE WILL BE INEVITABLE
ELECTION ISSUE IN 1977 OR 1978 AND IN HIS COROLLARY
ASSESSMENT THAT EARLY SEPARATION OF KEFLAVIK MILITARY
AND CIVILIAN FACILITIES WOULD GO FAR TOWARD EASING
IRRITATION WITH WHICH MANY ICELANDERS VIEW PRESENCE OF
BASE. THOUGH SEPARATION OF THESE FACILITIES WOULD
NOT GUARANTEE CLIMATE FAVORABLE TO BASE PRESENCE, IT
WOULD HELP PRIME MINISTER LIMIT POLITICAL LIABILITY
WHICH BASE ISSUE POSES ESPECIALLY IN WAKE OF LATEST
COD WAR. WE THEREFORE CONCLUDE, AFTER WEIGHING PROS AND CONS,
THAT IT IS IN OUR INTEREST TO BE RESPONSIVE TO HIS REQUEST
FOR ASSISTANCE IN AIR TERMINAL FINANCING AS STEP TOWARD
SEPARATION OF FACILITIES ENVISAGED IN 1974 MOU. OUR ASSISTANCE
SHOULD BE SIGNIFICANT BUT NOT OPEN ENDED, AND WE SHOULD BE
PREPARED TO MAKE AN EARLY POSITIVE RESPONSE TO PRIME
MINISTER AS PRELUDE TO DETAILED DISCUSSION OF EXACT
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NATURE AND TERMS OF ASSISTANCE. END SUMMARY.

1. IN HIS JANUARY 29 DISCUSSION WITH VICE PRESIDENT ON
AIR TERMINAL QUESTION, WE BELIEVE PRIME MINISTER HALLGRIMSSON
ACCURATELY DESCRIBED SITUATION HE WILL FACE IN 1977 OR
1978 WHEN IDF PRESENCE AND, TO LESSER EXTENT, NATO
MEMBERSHIP ONCE AGAIN BECOME ELECTION ISSUES. WE

MIGHT ADD, ALTHOUGH PRIME MINISTER REFRAINED FROM MENTIONING IT, THAT HE AND OTHER NATO/IDF BACKERS MUST NOT ONLY ANTICIPATE ATTACKS FROM PEOPLES ALLIANCE AND OTHER DEDICATED OPPONENTS OF IDF AND NATO, BUT MUST ALSO TAKE INTO ACCOUNT ATTITUDE OF PROGRESSIVES (HIS COALITION PARTNERS) WHO WANT NO FOREIGN FORCES HERE IN PEACETIME, PLUS SOME OPPOSITION TO IDF AND NATO FROM YOUNGER MEMBERS OF IP.

2. BY WAY OF PERSPECTIVE, IT IS IMPORTANT TO BEAR IN MIND THAT NARROW SPECTRUM OF ICELANDIC FOREIGN POLICY ISSUES MAKES IDF AND NATO A NATURAL FOR CONTROVERSY ANY TIME ICELANDERS CHOOSE A NEW GOVERNMENT. EVEN IF USG DID EVERYTHING ICELAND WANTS AND EXPECTS UNDER 1974 MOU, CAUCBDJDUJS WOULD STILL DEBATE IN NEXT CAMPAIGN WHETHER NATO MEMBERSHIP AND IDF PRESENCE SERVE THEIR NATIONAL INTERESTS AND SUCH COROLLARY ISSUES AS WHETHER THEIR CULTURAL VALUES ARE THREATENED BY PEACETIME FOREIGN MILITARY PRESENCE.

3. THESE ARE PERENNIAL FACTS OF LIFE WITH WHICH PRIME MINISTER AND THOSE WHO SHARE HIS VIEWS ON DEFENSE MUST CONTEND. IN THIS CONTEXT, HE CLEARLY SEES US ASSISTANCE IN TERMINAL PROJECT AS DAMAGE-LIMITING ACTION NEEDED IN NEXT CAMPAIGN (A) TO BOLSTER TRADITIONAL INDEPENDENCE PARTY ARGUMENTS IN FAVOR OF IDF PRESENCE AND (B) TO COUNTER POSSIBILITY OF INVIGORATED OPPOSITION TO IDF AS RESULT OF 1975-76 COD WAR WHICH ERODED SUPPORT FOR BOTH NATO AND IDF.

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4. QUESTION THEREFORE ARISES AS TO WHETHER WE SHOULD HELP HIM, PARTICULARLY SINCE WE HAVE ALREADY DONE MUCH UNDER 1974 MOU TO LOWER BASE PROFILE INCLUDING CUT BACK IN NUMBER OF U.S. MILITARY PERSONNEL ASSIGNED HERE, INCREASE IN ICELANDIC EMPLOYMENT AT BASE, REDUCTION IN OFF-BASE HOUSING, AND CLOSURE OF TV SIGNAL WHICH FORMERLY REACHED WIDE ICELANDIC AUDIENCE. IT IS OBVIOUS FROM PRIME MINISTER'S REMARKS, THAT HE WOULD ALSO LIKE TO BE ABLE TO CITE IN ADDITION TO FOREGOING MORE CLEAR-CUT EVIDENCE THAT 1974 MOU, WHICH HIS GOVERNMENT NEGOTIATED, HAS RESULTED IN EFFECTIVE "INSULATION" OF ICELANDIC COMMUNITY FROM IDF.

5. AS NOTED ABOVE, WE SHARE IN BROAD TERMS THE PRIME MINISTER'S ASSESSMENT OF CONTINUING SENSITIVITY OF PRESENT AIR TERMINAL ARRANGEMENTS BUT WE ALSO SEE TWO POSSIBLE PITFALLS IN WHAT PM PROPOSES TO DO. FIRST, DIE-HARD OPPONENTS OF IDF WILL PUT WORST POSSIBLE INTERPRETATION ON ANY U.S. ASSISTANCE IN ORDER TO IMPUGN MOTIVES OF USG AND GOI. PM--AND WE--COULD EXPECT FROM THAT QUARTER

CHARGES OF SELLOUT AND SECRET DEALS TO PERPETUATE BASE
PRESENCE HERE, AND THESE CHARGES WILL STRIKE RESPONSIVE
CHORD AMONG THOSE ICELANDERS DEEPLY SUSPICIOUS OF ANY REAL OR
IMAGINED INFRINGEMENT OF THEIR SOVEREIGNTY. SECOND, THERE ARE
THOSE WHO WOULD BE CRITICAL OF PM FOR APPEARING TO DISCARD

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THESIS HE HAS ALWAYS HELD AND SUPPORTED, NAMELY, THAT IDF
PRESENCE WAS IN ICELAND'S OWN SECURITY INTEREST AND ICELAND
SHOULD NOT SEEK COMPENSATION FOR IT. WE CANNOT ESTIMATE
SIZE OF THIS LATTER GROUP OR SUGGEST HOW IT WOULD TRANSLATE
ITS CRITICISM OF PM INTO POLITICAL TERMS DETRIMENTAL TO
HIM, BUT IT DOES EXIST--WITHIN IP AND OUTSIDE--AND WOULD
HAVE TO BE APPEASED.

6. HOWEVER, WE ASSUME PRIME MINISTER HAS WEIGHED PROBABLE
CRITICISMS NOTED ABOVE AND BELIEVES HE CAN COUNTER THEM.
HE CAN, FOR EXAMPLE, STRESS THAT USG HAS SIMPLY
RECOGNIZED ICELAND'S SECURITY CONTRIBUTION IN
SIGNIFICANT, TANGIBLE WAY BY ASSISTING ICELAND IN CONTEXT
OF MOU TO HANDLE EFFECTIVELY ITS GROWING CIVILIAN AIR
TRAFFIC WITHOUT DETRACTING FROM MILITARY PRESENCE
KEFLAVIK. HE WILL ALSO BE ABLE TO CITE PARA C OF AGREED
MINUTE AS FORESHADOWING SUCH ASSISTANCE. FINALLY, HE WILL
ALSO BE ABLE TO DEFLECT MUCH OF CRITICISM IF DECISION TO
EXTEND AID IS CONVEYED WELL IN ADVANCE OF CURRENTLY EXPECTED
ELECTION DATE (JUNE 1978). CONVERSELY, DELAY IN EXTENSION OF
AID WOULD MAKE IT EASIER FOR CRITICS TO LINK ASSISTANCE OFFER
WITH ALLEGED POLITICAL MOTIVATION.

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7. EMBASSY CONCLUSIONS: WE RECOGNIZE THAT IN EXTENDING U.S. AID IN CONSTRUCTION OF CIVIL AIR TERMINAL WE WOULD, FOR FIRST TIME, BE MAKING SIGNIFICANT, DIRECT FINANCIAL CONTRIBUTION TO WHAT CLEARLY IS ICELANDIC CIVILIAN PROJECT, ALBEIT ONE WHICH CAN BE RATIONALIZED UNDER TERMS OF MOU OF 1974. AS SUCH, DECISION COULD ENCOURAGE FUTURE TROUBLESOME REQUESTS. NEVERTHELESS, WE BELIEVE POSITIVE AND TIMELY RESPONSE TO PRIME MINISTER'S REQUEST WOULD BE IN OUR NATIONAL INTEREST, GIVEN CONTINUING STRATEGIC REQUIREMENT FOR BASE, IN THAT IT WOULD EASE ICELANDIC NATIONALIST SENSITIVITIES AND HELP HIM TO COUNTER DEMANDS FOR IDF REMOVAL. MOU OF 1974 RIGHTLY RECOGNIZES THESE SENSITIVITIES AS POTENTIAL SOURCE OF TROUBLE AND ICELANDERS OCCASIONALLY STILL POINT OUT THAT ON PRO-RATA BASIS NATO BASE IN U.S. WOULD REPRESENT CONCENTRATED FOREIGN MILITARY POPULATION OF SOME THREE MILLION. WE DO NOT RPT NOT, HOWEVER, BELIEVE PM AND IP WILL WIN OR LOSE NEXT ELECTIONS ON ISSUE OF BASE. DOMESTIC ISSUES MAY BE EXPECTED TO BE MORE IMPORTANT. BUT TO EXTENT HE CAN DEFLECT ATTENTION AWAY FROM BASE AS AN ISSUE, HE WILL HAVE STRENGTHENED HIS CHANCES BY JUST THAT MUCH AND IMPROVED IDF'S CHANCES OF STAYING ON.

8. QUESTION THEN IS BY HOW MUCH WE SHOULD HELP AND WHAT ICELANDERS WOULD SETTLE FOR. WE CANNOT SUGGEST SPECIFIC DOLLAR AMOUNTS ON THESE TWO POINTS SINCE WE DO NOT KNOW HOW FIRM GOI ESTIMATE OF TERMINAL COST (\$45 MILLION) ACTUALLY IS, AND GIVEN OUR POSITION ON THIS SUBJECT IN PAST WE HAVE NOT PROBED ICELANDERS ON WHAT THEY WOULD REGARD AS EQUITABLE. HOWEVER, WE CAN SUGGEST CERTAIN GUIDELINES: FIRST, WE SHOULD NOT RPT NOT PAY FULL COST OF TERMINAL. FOR US TO DO SO WOULD BE UNWISE BOTH FOR US AND PRIME MINISTER IN TERMS SUSPICIONS IT WOULD AROUSE AS TO WHAT HE HAD PROMISED IN RETURN. WE ALSO BELIEVE COST-SHARING PRINCIPLE IS STILL VALID BASIS FOR
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COOPERATION WITH OUR ALLIES, PARTICULARLY WHEN PROJECT IN QUESTION HAS CIVIL CHARACTER. SECOND, WE BELIEVE ICELANDERS WOULD EXPECT OUR CONTRIBUTION TO BE SIGNIFICANT IF ONLY FOR REASONS OF EQUITY. HOWEVER, SINCE WE HAVE DISCOURAGED THEM IN PAST FROM THINKING WE WOULD HELP ON CONSTRUCTION COSTS, WE BELIEVE

WE COULD SATISFY THEM BY EVENTUALLY AGREEING TO COVER UP TO 50 PERCENT OF SUCH COSTS. THIS FIGURE WOULD (A) BE SIGNIFICANT CONTRIBUTION, &(B) WOULD PRESERVE COST-SHARING PRINCIPLE AND (C) WOULD LESSEN POLITICAL RISKS INHERENT IN ANY LARGER FIGURE. AGAIN, SINCE WE HAVE NOT PROBED ON THIS POINT, WE ARE AT THIS TIME OFFERING ONLY A BEST ESTIMATE. THIRD, SPECIFIC DOLLAR LIMIT SHOULD BE SET ON ANY PERCENTAGE FIGURE; WE SHOULD NOT PAY FOR ICELAND'S INFLATION OR FOR COST OVERRUNS.

9. WE BELIEVE THAT FOR PRESENT, PRIME MINISTER WOULD BE SATISFIED WITH RESPONSE INDICATING OUR WILLINGNESS TO PROVIDE "SIGNIFICANT" ASSISTANCE IN MEETING CONSTRUCTION COSTS OF TERMINAL AND TO ENGAGE IN DISCUSSIONS ON THIS SUBJECT AT AN EARLY DATE. WE ASSUME THAT BEFORE CONVEYING ANY SUCH MESSAGE TO HIM WASHINGTON WILL HAVE TAKEN INTO ACCOUNT CONTINGENCY THAT SOME FUTURE GOVERNMENT MIGHT REQUEST IDF WITHDRAWAL. IN SUCH SITUATION NEED FOR SEPARATION OF MILITARY FROM CIVILIAN FACILITIES WOULD NO LONGER EXIST AND THEREFORE NEITHER WOULD REQUIREMENT FOR U.S. ASSISTANCE. THIS LAST POINT IS NOT RPT NOT ARGUMENT AGAINST POSITIVE RESPONSE TO PRIME MINISTER BUT RATHER FOR SHAPING ANY EVENTUAL U.S. CONTRIBUTION PRUDENTLY.
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